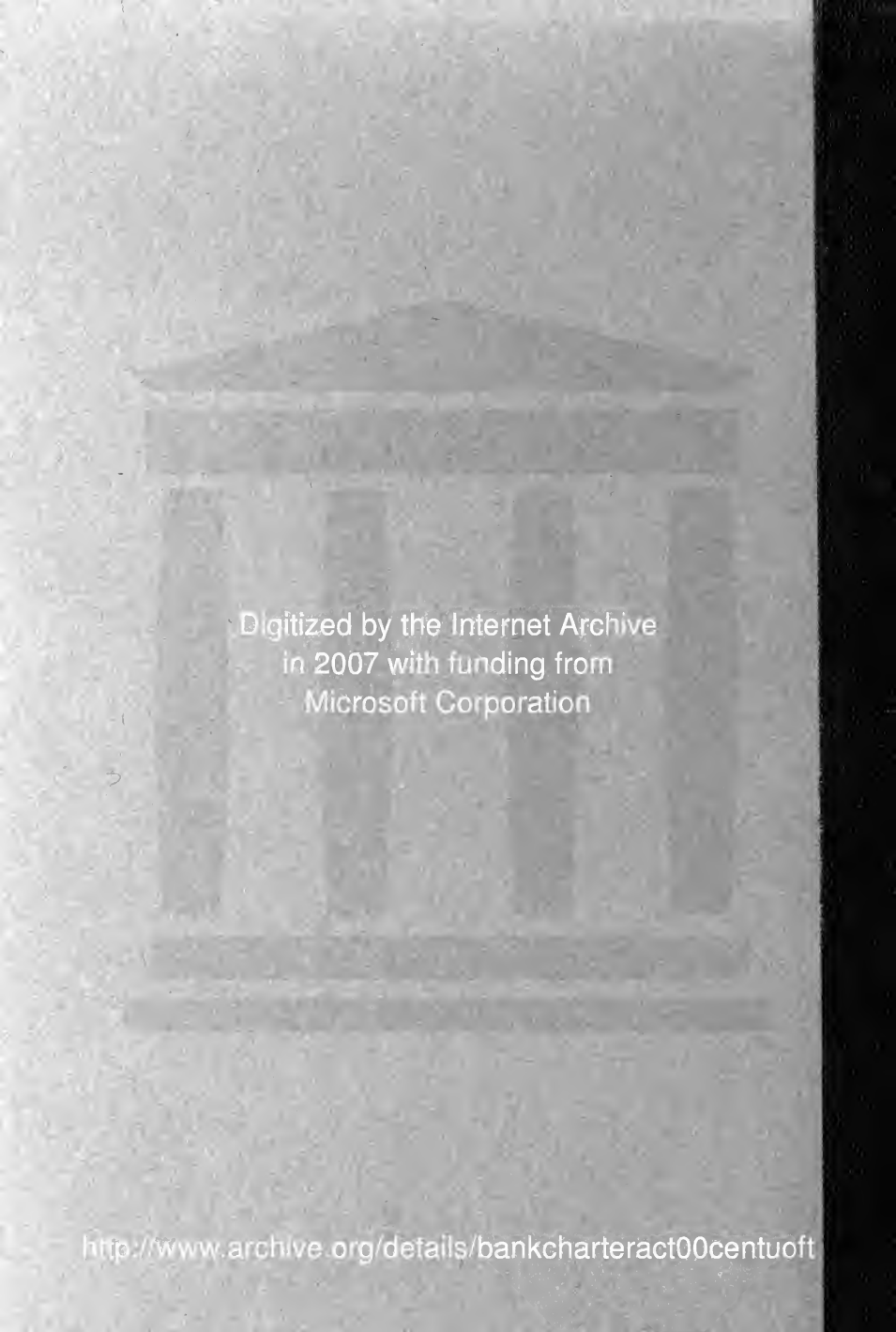
Central Currency Committee
The Bank charter act



Central Currency Committee.

No. 5.

THE BANK CHARTER ACT.

THE "Times" paper assures us, that the Currency Question is now to have a fair and full investigation, and to receive a just and righteous decision; and Mr. Cayley, the Member for the North Riding, tells us, that, if it be so, it will be the first time that the subject has been fairly dealt with. If the decision rested upon the *unanimous* verdict of *twelve* or even *five* unprejudiced men, who were honestly desirous of ascertaining the truth, and nothing but the truth, there might be some hope; but when the jury may be partly composed of men whose political reputation must suffer if the Act of 1844 be condemned, and when a bare majority of votes may be more than a counterbalance for the clearest and strongest evidence on the opposite side, it is hoping almost against hope to expect an impartial decision.

There is, perhaps, no source more prolific of error than the principle acted upon by Committees and Boards of Directors of allowing an issue to rest upon a mere majority of votes; for whenever it may happen that several of the members of those committees may have *private* prejudices or personal interests to serve, it is scarcely likely that they should come to a truthful decision. The man would be deemed a fool or a knave, or perhaps both, who should assert that two wrong opinions were equal to one right opinion, or that two prejudiced witnesses were equal to one that was unprejudiced; yet it is to be feared, that many questions of great importance have often been decided by *three wrong opinions* in opposition to *two right ones.* In the investigation relative to the panic of 1847 and the Act of 1844, which took place in the Committees in the two Houses of Parliament in 1848, it is well known that the Committee of the House of Lords condemned the Act of 1844 as one principal cause of the panic: while it is equally well known that an opposite opinion was affirmed by twelve votes against ten in the Committee of the House of Commons: it is obvious, therefore, that the majority of votes, either in the Lords or in the Commons, must have been

wrong—it is impossible that two opposite decisions could be right.

In cases of dispute affecting property to the most trifling amount, the laws of England require the *unanimous* verdict of a jury, or the decision of an equity judge whose personal reputation is involved in the wisdom and impartiality of his decision; but in the *making of our laws* a mere majority of votes oftentimes determines the question, and if the decision be wrong, the responsibility is so divided that every one thinks it rests upon some one else rather than himself. No wonder that, under this system of making and multiplying laws, one of our courts should often be in conflict with another, and that justice should be crucified between them, while their unhappy victims may be torn to pieces by a set of rapacious lawyers.

To every one who wishes for a final and a just settlement of the Currency Question, it must be matter of regret, that the Chancellor of the Exchequer's personal knowledge of the subject should be so imperfect, and that his mind should be so pre-occupied with party opinions, as appears to be the case from his speech in the House of Commons on the 6th instant. In commencing the debate on the Bank Charter Act, Sir George C. Lewis appears to have assumed, that on the resumption of cash payments in 1819 our monetary system was restored to the same state as in 1797, when cash payments were suspended. He states, that, by Peel's Act of 1819, "the value of the currency *was restored* "after a long period of suspension of cash payments," etc.

Many persons suppose, as Sir George appears to suppose, that the *old* system of currency was thus *restored.* This is a mistake. By Peel's Act an entirely *new* system of money was introduced—a system which his own father, and many other men of equal experience, foresaw would produce the monetary troubles which immediately followed its adoption, and which, since that time, have been repeatedly renewed.

Had the *old system of cash payments* been *really restored* in 1819, many of those troubles would have been avoided, as any unprejudiced person, who will take the trouble to reflect upon the following remarks, may easily discover.

Under the old system, all debts, including the National Debt, were legally redeemable in the *coin* of the realm, *either* silver or gold. If the silver money bore the king's stamp upon it, it was a *legal tender* to any amount, although

it might be considerably worn down below its original weight. Mr. Spooner, speaking in the debate of the 6th instant, mentions that silver coin was a *legal tender* to the amount of £25 *by tale*, and above that amount *by weight*. It is true that a temporary Act to this effect was passed in 1774, but it ceased to exist in March, 1784, and from the latter date to the time when cash payments were suspended in 1797, twenty shillings or forty sixpences constituted a legal pound sterling as truly as a guinea represented one pound one shilling sterling.

In 1816 the silver money was recoined, and it was then made a *legal tender* to the amount of forty shillings only. While bank notes continued to be a *legal tender* for all larger sums of money, this restriction on the legal power of silver coin was not felt: but by the Act of 1819 the National Debt, and all other debts above forty shillings, were no longer legally redeemable in bank notes, but in *gold coin alone*. Even this gold coin if it had lost one grain in its weight by wear was no longer *legal money*, notwithstanding the *legal stamp* upon it, although it has been tolerated in the circulation, except at such times as the Exchequer or the Bank of England have thought proper to refuse it. Thus, by the *new* system, it is *the material* of which the coin is made, and not *the coin* of the realm, that is our legal money. This distinction at first sight may not appear important, but the serious evils to which it has exposed us are made manifest by what took place in 1817. In that year the Directors of the Bank of England had voluntarily but gradually resumed cash payments. All went on very satisfactorily until the Directors appeared to have completed their work; but they had scarcely completed their task, and voluntarily made themselves liable to be called upon to provide sovereigns for all their notes, before their laudable object was entirely frustrated by the financial operations of the French Government, and actually frustrated by the use of money borrowed from our own country.

Shortly after the Bank of England had begun to resume cash payments, the French Government deemed it desirable to replenish their gold circulation, and for this purpose their agents negotiated a loan in the London Money Market. With the money thus obtained they purchased gold for the French Mint. The price of gold *in the market* at that time was 80*s.* 6*d.* per oz., but by collecting bank notes and taking

them to the Bank of England to be exchanged for the sovereigns then newly coined, the agents of the French Government could of course obtain the gold at our *Mint* price of 77*s.* 10½*d.* per oz. By this means the Bank of England was in a short time drained of several millions of gold sovereigns at the rate of 77*s.* 10½*d.*, which she had no means of replacing at a less price than 80*s.* 6*d.* per oz. No doubt there were other parties who took advantage of these circumstances to demand sovereigns at the Bank, which, after merely melting down into bullion, they could re-sell to the Bank at a large profit. To stop this drain of sovereigns, so ruinous to the Bank of England and so impoverishing to our national circulation, the British Government was obliged to *renew* the Bank Restriction Act in 1818, and to continue it until it was superseded by the Act of 1819.

Now it is obvious that all this mischief would have been averted if our *silver* coin had been a *legal tender* in 1817 in the same manner as it had formerly been: for then the Bank of England could have checked this unfair demand for gold by offering silver coin in payment, so long as the *Market* price of gold exceeded its *Mint* price, and by drawing silver from France in exchange for French Bank Notes, just the same as Gold was drawn from us in exchange for Bank of England Notes, and then the cash payments which the Bank Directors had voluntarily commenced would in all probability have been perpetuated: but, for want of this alternative, the Bank of England lost its gold, trade was paralyzed, the public were put to great inconvenience, and the Restriction Act was obliged to be renewed.*

In 1819, when it was again proposed to resume cash payments, our rulers, instead of profiting by the sad experience of 1817, and restoring to the *silver coin* of the realm, as well as to the *gold* coin, that *legal tender* power which it possessed in 1797, were induced by the late Sir Robert Peel and his coadjutors to adopt the *new* system, which has been described, and which has since subjected us to frequent repetitions of a drain of gold, and to many disastrous

* See "Political Economy Illustrated by Sacred History," published by Messrs. Seeley & Co., London. In Part II. of this little work, the reader may see these facts, and many others bearing upon the same question, fully and circumstantially stated.

consequences similar to those we had experienced in 1817, although latterly the Bank Directors have been permitted to throw the burden of the losses chiefly upon the public. And now, in consequence of the total repeal of the Usury Laws, the profits of the Bank and of those bankers and money-dealers who adopt its policy, are often increased by the operations of the screw, just in proportion as the productive classes and their employers are punished. From these remarks it will be seen that Sir George is mistaken in supposing that the system of cash payments adopted in 1819 was a *restoration* of the former system, which had existed in 1797.

Another mistaken assumption is adopted by Sir George, which he probably would not have fallen into if he had been better acquainted with our monetary history. Having raised the question of "What is the meaning of a pound "note?" he replies, "It is simply a promise to pay on de-"mand to the bearer, at the place where the note is issued, "the sum of one sovereign."

In this assumption Sir George appears not to be aware that "pound notes" existed in our circulation long before there were any golden sovereigns for them to represent. There were no gold sovereigns until 1816; and for nineteen years prior to that date, the "pound note" of the Bank of England was in itself the *absolute* and *legal* "pound "sterling." In reference to it all the debts and taxes of the nation were contracted, and in it they were legally redeemable. It was the circulating and exact representative of one pound in the national revenue, and in every ledger account and every rent-roll in the kingdom. The amount of bank notes in circulation being always considerably below the annual demand for taxes, they were in constant and regular requisition for the transactions between the government and the people, and their exchangeable value was thus kept perfectly steady and uniform—not only in relation to the national revenue, but in relation to all other money payments within the realm: so far, therefore, from the "pound "note" being a promise to pay a golden sovereign, as Sir George has assumed, the *Market price* of gold itself was determined by the bank note. The bank note was in reality the *legal standard* by which the value of the precious metals, as well as all other commodities, was estimated and determined in the nation. More than five hundred millions

of our National Debt were borrowed in those bank notes, and the interest agreed to be paid in the same money. With this explanation, Sir George will probably see that it is very illogical for us now to assume that those five hundred millions of funded bank notes could really represent five hundred millions of golden sovereigns, which were unknown, even by name, when the money was borrowed.

Taking the most stringent view of the cash value of those bank notes, they could not be understood to represent any other coin of the realm than that in which they would have been legally payable if specie payments had never been suspended, and, as before observed, twenty shillings or forty sixpences in silver, though much worn below their original weight, would then have been a pound sterling *in specie* as legally as $\frac{40}{21}$ parts of a golden guinea.

The *original* and *only true metallic pound* is a pound weight of silver, which, in the first instance, was divided into two hundred and forty pennies or pennyweights. This was the pound sterling at the Norman Conquest, and for some reigns afterwards; and, while it was the custom of the nation to pay its taxes *in kind*, and the transactions of the people with each other were conducted chiefly on the *barter* system, the original pound sterling might answer very well. But the various weights of gold and silver by which the pound sterling has been subsequently represented in this nation have been purely arbitrary. Formerly, it depended upon the mere will of the monarch; now it depends upon the will of Parliament. Parliament may declare that 5dwts. 3grs. of standard gold shall be coined and called a sovereign, and that this sovereign shall be a legal tender for any debt or tax of one pound sterling, upon precisely the same arbitrary principle as a bank note was made a pound sterling during the French War; but to say, as the late Sir Robert Peel once said, that 5dwts. 3grs. of gold is *in itself* a pound sterling, and that the royal impression is merely affixed to determine its weight and quality, is just as absurd as it would be to assert that 5dwts. 3grs. of standard gold is 12oz. of standard silver.

Sir George is quite right in arguing that our national contracts ought to be *honestly* fulfilled; but he should remember that justice is due to the tax-payer as well as the tax-receiver, and that it can never be just, by an *ex post facto* law, to convert that portion of our National Debt

which was borrowed prior to the year 1816 into any other kind of money than that which previously existed in 1797, when cash payments were suspended, viz., the coin of the realm, *either* silver or gold.

The *elastic* principle of justice, acted upon by Parliamentary Committees, has received some extraordinary illustrations in our monetary history during the last thirty-eight years. The Committee of which the late Sir Robert Peel was chairman in 1819, absolutely excluded from the Committee-room all the witnesses connected with the Bank of England. Some of the Bank Directors sought access to the Committee-room; and, if admitted, they would no doubt have impressed upon the Committee the unfortunate result of their recent attempt to resume cash payments, and the cause of its failure; but their attempt was of no use; a majority of the Committee had made up their minds to support *the new system,* and they were resolved not to hear any one who was opposed to their views — at least, so Mr. Tierney stated in Parliament; his words are "It was an "extraordinary truth, that from the moment it" (*the new system*) "was agreed upon, no human being was consulted "as to its effects. It was made a point of honour that the "Directors should have no communication with the Com- "mittee; they were tabooed and driven out of the room, "and day after day performed at the door a melancholy "quarantine."— *Hansard,* vol. xl. p. 733. Mr. Tierney was himself on the Committee, and one of the earliest and most consistent advocates for the resumption of cash payments: but he was so astonished at the unfairness of these proceedings, and the reckless zeal of those members of the Committee who had only just become converts to bullionism, that, in common justice to the Bank Directors, he deemed it right to make these communications to the House. Such was the treatment that the Directors of the Bank of England received from a Committee of the House of Commons on our monetary system in 1819, over which the late Sir Robert Peel presided.

In another Committee on the same question in 1848, in which the same Sir Robert Peel was the most influential member, not only were the Governor, Deputy Governor, and a former Governor of the Bank of England admitted as witnesses, but on their testimony and that of Mr. Samuel Jones Loyd (who the "Times" tells us was the real author

of the Act of 1844), a Report was sanctioned by a slender majority of 12 to 10 in favour of that Act, which decision virtually annulled the testimony of the thirteen other witnesses who had been examined, and whose testimony was at least equally disinterested and equally deserving of attention with that of the four witnesses on the opposite side. As before observed, this Report of the Commons was in direct opposition to the Report of the Lords upon the same question.

And now, when another Committee on the Bank Charter Act is appointed, involving considerations vitally affecting our monetary system and the charter of the Bank of England — a question in which the Governor of the Bank of England cannot fail to be a most interested party — incredible as it may seem, a gentleman occupying that post has scarcely taken his seat in the House of Commons before he is nominated by the Chancellor of the Exchequer upon this Committee, which of course gives him the power of becoming a judge as well as a party in his own cause: thus verifying the old saying, "that one man may steal a horse, while another may not be allowed to look over the hedge."

February 18, 1857.

The following Publications of the Committee may be had of Messrs. TALLANT AND ALLEN, 21, Paternoster Row; D. OAKEY, 9, Paternoster Row; and MANN, NEPHEWS, Cornhill.

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